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SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB  
TREASURY FOR U/S TAYLOR AND OASIA - MILLS  
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

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SUBJECT: TURKISH ECONOMY MARCH 20: CONTAINED REACTION FOR  
NOW

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Initial Market Reaction Limited  
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1. (U) At OOB March 20, Turkish markets opened sharply down, but recovered somewhat as the morning went on. JP Morgan/Chase bond trader Gumisdis, Yapi Kredi Bank Treasurer Imece and other market players here all pointed to the Ari Fleischer statement that "the White House has not ruled out assistance for Turkey in this matter."

-- The lira is currently trading at TL 1,703,000 to the dollar (a one percent depreciation from yesterday);  
-- T-bill yields are 67 percent compounded (up two percentage points from yesterday);  
-- The Istanbul Stock Exchange 100 index is down 1.5 percent in morning trading.

Helpful Central Bank Statement  
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2. (U) At OOB March 20, the Central Bank issued a statement that traders this morning credited with dampening dollar demand. It said the CBT is prepared to take certain measures that may be needed to maintain financial stability. They are: a TL liquidity facility so banks could borrow (at rates higher than the current money markets) to meet extraordinary cash needs; one-week dollar deposits to banks, again at higher than market interest rates. The statement (issued only in Turkish) read in part:

-- "Turkish Lira Market. The liquidity level of TL is sufficient to meet the needs of the financial system. Still, if any liquidity need arises, the required liquidity could be provided through the Central Bank establishing a 'Late Liquidity Window' in the interbank money market that would become active, if needed, during the hours 16:00-16:30."

-- "Foreign Exchange Market. In the extraordinary case of extra FX demand in the market, and in order to secure the smooth operation of the FX market, the Central Bank would be prepared to provide to banks U.S. Dollar deposits of one-week maturities, within the borrowing banks' borrowing limits. The interest rate on such deposits would be between 12-8 percent per annum."

Other Public Statements Less Helpful  
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3. (U) Deputy PM and FM Gul gave a Reuters interview given on March 19 and published mid-morning March 20. It reads in part as follows:

-- "It would be wrong to link the whole Turkish economy to a U.S. package. It is important to take the right measures in the economy and to implement the economic program in a right way, to prepare the budget accordingly and to provide fiscal discipline."

-- "We already told the U.S. that we would have military forces in Northern Iraq and there was a mutual understanding on this in yesterday's (i.e. March 18) meeting."

14. (SBU) IMF resrep Brekk met with Treasury U/S Oztrak on March 20 am and told us that Oztrak has proposed to the GOT that PM Erdogan issue a statement today with detailed, strengthened economic reform measures. Oztrak's strategy, per IMF resrep, was for Erdogan to make a statement by early afternoon Ankara time, to which the IMF spokesman could respond at the IMF weekly press meeting at 9:30 am Washington time today. However, as of 2:30 pm local time, Oztrak had not yet obtained full GOT agreement on the content of the new measures, and thus no statement is planned for the moment.

15. (SBU) Resrep added that he was prepared to work urgently with the GOT, acting on guidance from his headquarters (since IMF staff cannot travel to Turkey now). Resrep believes the draft LOI could be revised in several days of work to reflect a war scenario, involving more GOT borrowing needs, a tighter budget and fiscal measures to support it. He stressed that the IMF had already given the GOT a list of fiscal measures, most of which they have yet to adopt, that could achieve the needed fiscal tightening. He singled out public sector wage cuts as the most important measure, which he said MinSate Babacan is resisting in talks with Oztrak.

PEARSON